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SUBJECT: EU STRATEGIC ENERGY REVIEW

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¶1. (SBU) Summary. On November 13, EU Energy Commissioner Andris Piebalgs presented the Commission's 2nd Strategic Energy Review (SER) to the Parliament. The SER contains a new five-point "EU Energy Security and Solidarity Action Plan," focused on: infrastructure needs and diversification of energy supplies (including interconnections and new supply corridors), external energy relations, oil and gas stocks and crisis response mechanisms, energy efficiency, and the best use of the EU's indigenous energy resources (including renewables, coal, and nuclear energy). The plan charts the policy priorities for the next Commission, due to take office in November 2009 and includes a "vision for 2050" characterized by a carbon-free energy production, the end of oil dependence in transport, low energy buildings and 'smart' interconnected electricity grids. However, sorting out the details on how this structural shift will be realized has been left to the next Commission. End Summary.

¶2. (U) On November 13, EU Energy Commissioner Andris Piebalgs presented the Commission's 2nd Strategic Energy Review (SER) to the Parliament. The SER focuses on security of supply and is intended by the Commission to complete the picture in developing a new "Energy Policy for Europe". The first SER concentrated on climate change, introducing the 20-20-20 targets, leading to the proposed new Renewables Directive and the revision of the Emissions Trading Scheme Directive, as well as the 3rd Energy Package. The 2nd SER contains a wide-ranging energy package which is intended to give a new boost to energy security in Europe by:

-- Putting forward a new strategy to build up energy solidarity among Member States and a new policy on energy networks to stimulate investment in more efficient, low-carbon energy networks.

-- Proposing an Energy Security and Solidarity Action Plan to secure sustainable energy supplies in the EU and looking at the challenges that Europe will face between 2020 and 2050.

-- Adopting a package of energy efficiency proposals aiming to make energy savings in key areas, such as reinforcing energy efficiency legislation on buildings and energy-using products.

The EU Approach to Energy Security

¶3. (U) Energy security is an issue of common EU concern. With the integration of energy markets and infrastructures within the EU, the Commission views specific national solutions as often insufficient. And while each Member State is responsible for its own security, the Commission views

solidarity between Member States as a basic feature of EU membership. The Commission argues that strategies to share and spread risk, and to make the best use of the combined weight of the EU in world affairs can be more effective than dispersed national actions.

¶4. (U) There is a close link between the EU's approach to energy security and its initiatives on climate change. To meet the EU's 20-20-20 climate goals, the Commission envisages an energy system with a diversity of non-fossil fuel supplies, flexible infrastructures and capacities for demand management that will be very different in energy security terms than today's system. In the short to medium term, the Commission recognizes that Europe's dependence on imports means that effective provisions for preventing and dealing with supply crises must be in place. Europe therefore seeks to diminish its vulnerability to energy supply shocks.

Energy Security and Solidarity Action Plan

¶5. (U) The SER contains a new five-point "EU Energy Security and Solidarity Action Plan," focused on:

- 1.) Infrastructure needs and diversification of energy supplies (including interconnections and new supply corridors)
- 2.) External energy relations
- 3.) Oil and gas stocks and crisis response mechanisms
- 4.) Energy efficiency

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- 5.) Making the best use of the EU's indigenous energy resources (including renewables, coal, and nuclear energy).

¶6. (U) The plan charts the policy priorities for the next Commission, due to take office in November 2009.

Infrastructure Needs and Diversification of Energy Supplies

¶7. (U) The 3rd internal energy market legislative package (currently under consideration in the Parliament and Council) encourages investments in infrastructures, notably cross-border infrastructures. The Commission argues that "Europe's energy networks are no longer up to the task of providing secure energy supplies in the foreseeable future." It therefore urged member states to ease their reliance on Russia for gas by building an EU-wide distribution network so that import cuts -- like those of 2006, when Russia stopped deliveries to Ukraine -- can be offset by getting gas from somewhere else. "A major benefit of a European network is that everyone can help each other ... in a crisis." It said by 2030, 1 trillion euros (\$1.25 trillion) must be spent improving the EU's power grids and production capacity and about 150 billion euros (\$188 billion) on gas networks.

¶8. (U) The Commission proposes that the European Council endorses the identification of six "priority infrastructure actions" as "Community priorities", notably:

-- Development of a Baltic interconnection plan, better linking the region with the rest of the EU, improving the security and diversity of its energy supply, enabling solidarity;

-- Development of a Southern Gas Corridor for supply from Caspian and Middle Eastern sources and possibly other countries in the longer term, improving security of supply;

-- Development of an LNG Action Plan. As liquefied natural gas (LNG) is now contributing to diversity of gas supply, sufficient capacity should be available to all Member States, either directly or through other Member States on the basis

of solidarity arrangements; particularly important for the Member States which are currently overwhelmingly dependent on a single gas supplier.

-- Completion of a Mediterranean energy ring, linking Europe with the Southern Mediterranean through electricity and gas interconnections to improve energy security and to help develop the vast solar and wind energy potential;

-- Development of North-South gas and electricity interconnections within Central and South-East Europe;

-- Development of a blueprint for a North Sea offshore grid, interconnecting national electricity grids and plugging in planned offshore wind projects.

¶9. (U) The Commission then proposes a three step approach to ensuring that these projects become reality. First, it invites the next European Council (December 11-12) to agree that these are indeed the EU's key infrastructure priorities.

Second, by 2010, the Commission will set out a concrete plan for each priority project through six public Communications, identifying specifically what needs to be done. Third, the Commission now starts the process to ensure that the tools and instruments at Community level will be available to then implement these concrete plans.

¶10. (U) Two main issues are identified in this latter respect. First, the Commission underlines the importance of speaking with one voice on these issues (which "does not mean a single Community representative for external issues, but effective planning and co-ordination to ensure a commonality of both action and message at Community and Member State level. To put this into practice, in 2009 the Commission will identify the concrete mechanisms necessary for ensuring transparency between Member States and the EU").

¶11. (U) Second, the Commission has announced its intention to revise the Trans-European Energy Networks (TEN-E). TEN-E and its budget were conceived and developed when the EU was considerably smaller and faced energy challenges of a completely different dimension compared to today. The Commission has tabled a Green Paper on how the existing TEN-E

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instrument could be replaced by a new "EU Energy Security and Infrastructure Instrument" with the possible objectives of completing the Internal Energy Market, ensuring the development of the grid to permit the achievement of the EU's renewable energy objectives and guaranteeing EU security of energy supply, through infrastructure projects within and outside the EU. In addition, the Green Paper launches a reflection on how best to ensure the effective use and evolution of the EU's external policy and financial instruments to contribute to achieving these objectives.

External Energy Relations

¶12. (U) On external energy policy, the SER identifies a number of key priorities for the Community, notably, Russia, the Energy Community of South-East Europe, the Caspian, OPEC, and Africa. It also identifies where progress needs to be made in moving to more formal, legally-binding relations on energy with our suppliers, notably with Russia. Confidence in Russia has been shaken by its war with Georgia in August.

"Today eight member states are reliant on just one supplier for 100 percent of their gas needs," Commission President Jose Manuel Barroso told reporters as he released the SER proposals on the eve of the EU summit with Russia. "This is a problem we must address. We must shield European citizens from the risks that external suppliers cannot honor their commitments," he said.

¶13. (U) With producer countries outside Europe the Commission argues the EU should develop a new generation of "energy interdependence" provisions in its broad-based agreements.

The Commission believes that as much as Europe seeks security of supply, external suppliers and industry seek security of demand. There is little new, however, in terms of concrete initiatives, aside from those mentioned above regarding infrastructure.

Oil and Gas Stocks and Crisis Response Mechanism

¶14. (U) The Commission proposes a revision in the EU's strategic oil stocks legislation, improving coherence with the International Energy Agency regime, reliability and transparency on available stocks and clarifying emergency procedures. To improve oil market transparency, the Commission proposes that the EU publish weekly, on an aggregated basis, the level of commercial oil stocks held by EU oil companies.

¶15. (U) Regarding gas the SER is accompanied by a Communication that reviews the implementation and effectiveness of the existing Security of Gas Supply Directive. It finds that the Directive needs to be improved. In particular, it finds that greater harmonization of security of supply standards and predefined emergency measures on regional and EU levels are needed. However, it does not go so far as to propose obligatory strategic gas stocks, on the grounds that "strategic gas stocks cost at least five times more than oil stocks. A more effective approach is to promote the development and effective transparent operation of commercial storages, diverse supply connections enabling flexible sourcing from LNG or neighboring providers within the EU internal market, and rapid demand reduction through interruptible contracts and fuel switching especially in electricity generation". A revised Security of Gas Supply Directive has been announced for 2010.

Energy Efficiency

¶16. (U) Regarding energy efficiency, the SER underlines that this is one of the most important European energy policies regarding energy security, in addition to its role in combating climate change. The Commission tabled a new energy efficiency package, comprising a number of measures, the most important of which are a revision of the Energy Performance of Buildings Directive to extend its scope, simplify its implementation and develop energy performance certificates of buildings into a real market instrument; and a revision of the Energy Labeling Directive to apply labeling to a broader range of energy-using products (thus including industrial rather than just household products). Under a separate legal instrument, a new energy label is proposed for car tires. In addition the Commission announced a green tax package that will "include a proposal to review the Energy Tax Directive to make it fully compatible with the energy and

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climate change goals and an examination of how VAT and other fiscal instruments can be used to promote energy efficiency."

Making the Best use of the EU's Indigenous Energy Resources

¶17. (U) Indigenous production currently provides 46% of the energy used in Europe. The Commission believes the EU's greatest potential source of indigenous energy is renewable energy. Today it accounts for about 9% of final EU energy consumption and the agreement is to raise this to 20% by ¶2020. To encourage indigenous energy production the Commission has proposed a new "Sustainable Energy Financing Initiative", which is a joint initiative of the Commission, European Investment Bank and European Bank for Reconstruction and Development

¶18. (U) The Commission views technology as crucial in developing and using resources in a cost-effective and environmentally-sustainable way. As such, its next step in the Strategic Energy Technology Plan will be a Communication

on Financing Low Carbon Technologies, which is expected next Spring. This will propose ways to support large scale demonstrations at EU level, including up to twelve Carbon Capture and Storage (CCS) demonstration plants.

¶19. (U) On nuclear energy the Commission continues to send cautious, but positive messages on the importance of nuclear in the EU's energy mix for its climate change commitments and energy security objectives, whilst however stressing that the choice whether or not to use nuclear is up to each Member State. However, as it believes the nuclear safety and security framework applied everywhere in the EU is of common interest the Commission is tabling a revised proposal for a Directive on Nuclear Safety because it believes a common legislative framework on the safety of nuclear installations and the management of nuclear waste is needed.

Towards a vision for 2050

¶20. (U) The final element of the SER is a rather forward-looking chapter, asking what needs to be done to prepare for the energy challenges towards 2050, rather than the 2020 timescale which the Commission, and EU, has focused upon until now. The SER announces that "the Commission will therefore propose to renew the Energy Policy for Europe in 2010 with a view to charting a policy agenda for 2030 and a vision for 2050". In particular the Commission highlights a number of issues that will be the focus of this longer term "Roadmap towards a 2050 Energy Policy", notably: a low or zero carbon electricity industry by 2050, ending oil dependency in transport, leading on low and then positive energy buildings, and a smart electric grid.

¶21. (U) The Commission believes that the EU needs to go beyond its 20-20-20 goals and develop a vision for 2050 and a policy agenda for 2030. It argues that the fundamental technological shifts involved in decarbonizing the EU electricity supply, ending oil dependence in transport, low energy and positive power buildings, a smart interconnected electricity network will only happen with a coordinated agenda for research and technological development, regulation, investment and infrastructure development. The Commission also believes that the transition to a high-efficiency, low-carbon energy system needs to be promoted not only in Europe but worldwide. As such, the Commission plans to prepare a roadmap towards a 2050 Energy Policy, in dialogue with Member State officials, academics and industry experts.

¶22. (SBU) Comment. The recommendations included in the SER could be adopted by the March 2009 European Council. The Council would then call on the Commission to draft legislation to carry out these proposals. Some of the recommendations could be implemented without new legislation, but for those requiring legislation we are unlikely to see a package submitted to the Parliament until some time next fall. We see no immediate red flags in the proposals outlined above, and indeed we are encouraged by the initiatives to increase Europe's energy security. If these packages do go forward, they will no doubt be heavily debated and amended by the Parliament and Council and as always, the devil will be in the details. End Comment.

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